

Chesebrough-Pond's Inc.
Annual Report 1972





Today's active woman is representative of the millions of women and their families Chesebrough-Pond's serves in providing an ever broader range of quality consumer products at reasonable prices. Chesebrough-Pond's is a diversified manufacturer and marketer of consumer products, including cosmetics, proprietaries, toiletries, fragrances, specialty foods and health care products. Some of the company's best known brand names are: Vaseline, Pond's, Q-Tips, Intensive Care, Cutex, Wind Song, Cachet, Pertussin and Ragú.

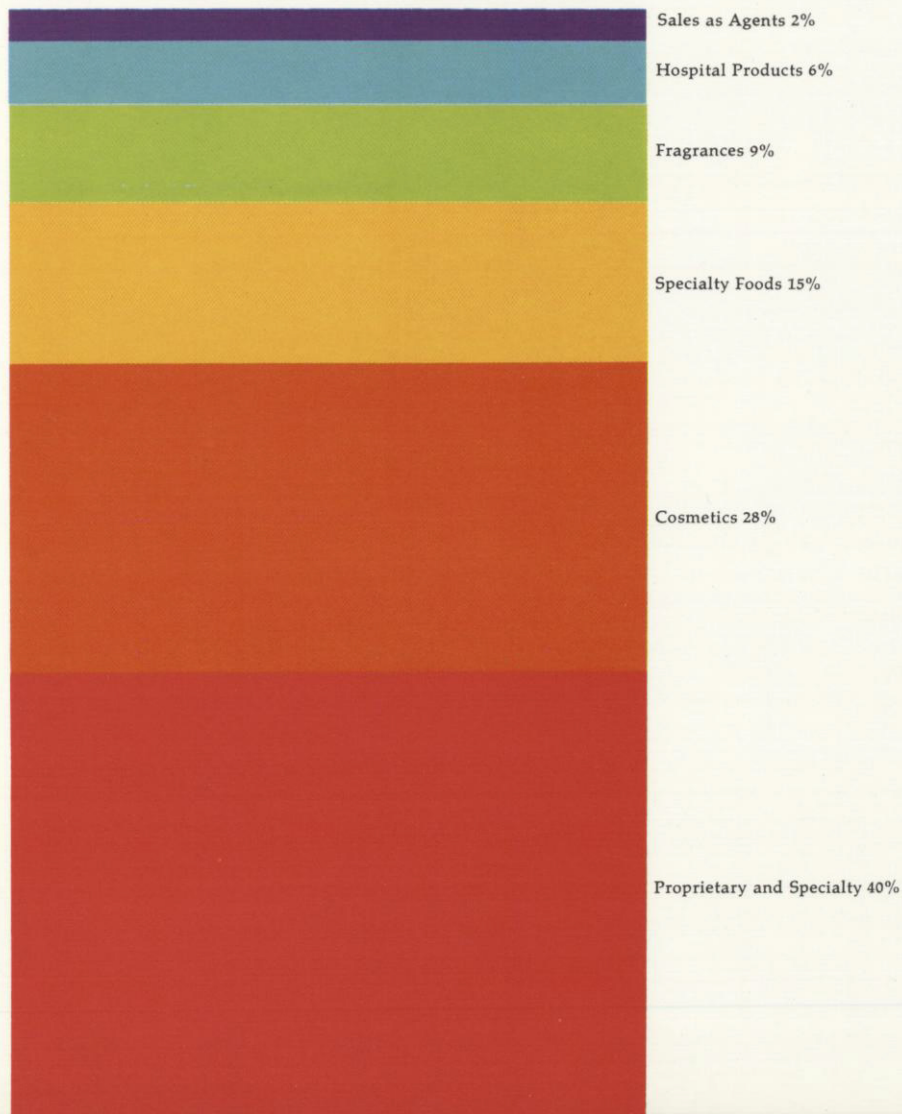
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FINANCIAL HIGHLIGHTS

	1972	1971	% Increase
Net Sales	\$350,791,000	\$302,135,000	16.1
Net Income	26,921,000	23,438,000	14.9
Earnings Per Share	2.20	1.94	13.4
Dividends Per Share	1.08	1.04	3.8
Shareholders' Equity	\$154,329,000	\$127,684,000	20.9
Average Shares Outstanding During Year	12,219,000	12,075,000	1.2
Number of Shareholders at Year-End	14,018	14,200	(1.3)

1972 WORLDWIDE SALES BY PRODUCT LINE



TO OUR SHAREHOLDERS: The record achievements in 1972 sales and earnings were accompanied by extraordinary activity on many fronts to provide for a continuation of the growth program outlined nearly five years ago.

In the facilities area alone, we achieved more in the past year than in any similar period in the company's history. Among the major accomplishments for the year were:

- In January, the new worldwide Operations Center in Clinton, Connecticut was occupied, bringing together many interrelated functions.
- A new worldwide Research and Development Center at Trumbull, Connecticut opened its doors in August.
- In September, the world headquarters for the company was shifted from New York City to a larger new leased facility in Greenwich, Connecticut.
- In October, the newly completed Ragú Foods plant at Merced, California produced its first tomato paste. Spaghetti sauce manufacturing began in November and is continuing while the paste plant awaits the next tomato crop.
- Elsewhere during the year new plants were opened in Mexico, Zambia and Indonesia reinforcing our capacity for future growth around the globe.

Important progress was also made in the company's ability to offset cost increases through vertical integration in the manufacturing area. At Jefferson City, Missouri, continued expansion of our plastics packaging capabilities, while requiring considerable capital investment, made it possible for us to offset rising labor and materials charges in other areas. As a result, overall profit margins remained within the limits of the Government's Phase II controls and we did not apply for any price increases during the year.

In addition, these cost-saving programs will have long-range benefits and help to improve our long-term competitive position in the United States market, while setting an operational pattern which is now being followed in our international manufacturing locations.

Total capital expenditures for 1972 amounted to approximately \$18,000,000 as compared with an investment level in 1971 of \$12,600,000. We expect a capital spending budget level of approximately \$14,000,000 in the current year.

At year-end, in the United States, the company had achieved the strongest market share in history for a majority of its consumer product lines. Sales of *Vaseline Petroleum Jelly* reached another all-time high, and the same was true of *Vaseline Intensive Care Lotion* and *Vaseline Intensive Care Bath Beads*. Significantly, each began 1973 as the top-selling product in its respective category, while *Vaseline Intensive Care Baby Products*, new to the market in 1972, had attained the number two position by year's end.

Looking to other lines, the *Cutex* brand of nail polishes, lipsticks and related items showed a most encouraging growth pattern, with a sales increase in the United States alone exceeding 30 per cent. *Q-Tips Cotton Swabs* sales again attained new highs as did the *Prince Matchabelli Division's Cachet* and *Wind Song* fragrance lines. As expected, *Ragú* brand sales again were up significantly with a 29 per cent volume increase and for the first time *Ragú* outsold all other brands of spaghetti sauce combined.

As a result of the continued sales and earnings improvement in our domestic business and a profit turnaround in our international business, Chesebrough-Pond's had an excellent year with every division contributing to results.

Net income moved ahead 14.9 per cent from the 1971 level, reaching \$26,921,000, while earnings per share of \$2.20 represented an increase of 13.4 per cent from a year earlier. Sales rose to \$350,791,000, an increase of 16.1 per cent over 1971 results.

Looking ahead, we expect the company's sales growth to be greatly aided by our increased new product



development capability at Trumbull, Connecticut. In fact, while it would be premature to form any definitive conclusions, evidence of this seems to be forthcoming in the volume of new products currently in various stages of testing.

In addition to new products, expanding markets for existing products will also continue to be an important segment of our growth plan. In the United Kingdom, the *Cachet* fragrance line was introduced in 1972, and to date has paralleled its successful introduction in the United States. *Vaseline Intensive Care* Lotion was introduced in 4 additional markets overseas in 1972 and is now available in 37 international markets. In Japan after many months of investigation and preparation, we reached an agreement in November with Kikkoman Shoyu Co., Ltd., one of Japan's largest food concerns, to manufacture and distribute *Ragú* sauces in that country.

Having examined our growth in products—new and established—and facilities, we would like to refer to our acquisition philosophy for growth as outlined at last year's annual meeting. Aside from companies with products that can be integrated into our present operations, diversification is one of the principal purposes of our acquisition program. We will consider new industries or product areas only if they are allied to our marketing or business skills. In other words, we seek situations in which a company's products will be compatible with our marketing experience in mass distribution outlets. Profit margins also must be comparable to ours. Brand names must be well established with the consumer and the products must be quality items, popularly priced, mass marketed and mass advertised.

These factors were evident in our acquisition of Ragú Foods, Inc. which has more than doubled its sales volume under Chesebrough-Pond's, and we would expect these factors to apply in any selected diversification possibility.

In terms of accommodating further diversification possibilities, we are better prepared than ever before from a corporate management standpoint. After months of planning, on August 1, 1972 the foundations of a greatly strengthened senior management capability were laid in a series of executive promotions and appointments that created for the first time clear profit center responsibility along divisional lines. Consequently, we are equipped to handle diversification opportunities with a minimum of disruption. At

the same time, we are providing a better vehicle for overall future growth, and most importantly for the development of future managers.

With regard to the impact of outside developments on our business, I would like to comment specifically on two matters. First, on the consumerism front we were well prepared for the recent action of the Food and Drug Administration in proposing mandatory ingredient labeling of cosmetic products. This presents no serious administrative or financial burdens to the company which has long cooperated with the legitimate requests of consumers for more information.

The second comment has to do with a proposal to limit American business investment abroad. At this writing, the United States Congress is currently considering the Burke-Hartke Bill, the effect of which could be to seriously curtail overseas investment by companies based in the United States, such as Chesebrough-Pond's. We believe that legislation designed to limit opportunities abroad would affect the economy adversely and can point to our own favorable balance of payments on overseas investment through the years as an argument for allowing manufacturers freedom to find the most effective ways to supply their markets.

Taxes are a subject of corporate as well as individual concern. In the Notes to the Financial Statements of this report we have incorporated a summary which, we feel, clarifies the often overlooked impact of taxes on an international corporation in today's world.

There have been two changes in the board of directors since my last report. At year-end, Albert B. Richardson retired as a director and officer after 26 years of valu-

able service to the corporation. On January 17, J. Tylee Wilson, group vice president with overall responsibility for the Prince Matchabelli and Health and Beauty Divisions, was elected to the board.

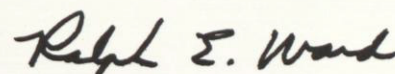
The operational and promotional demands of our growing business required us to seek a relatively greater degree of outside financing in 1972. A portion of this was necessary in order to comply with the U.S. Government balance of payments program. As an indication of our financial condition, the ratio of current assets to current liabilities of 2.6 to 1 in 1972 compares with a ratio of 2.3 to 1 for 1971.

While the U.S. Government's economic controls program in 1972 did not materially affect the year's costs or profits, it is still too early to determine the precise effect these controls will have under Phase III.

Internationally, the dollar devaluation on February 12, 1973 and related foreign currency adjustments did not affect 1972 results. As far as 1973 is concerned, we anticipate an indeterminable positive effect at this time.

On February 21, 1973, the board of directors voted an increase in the quarterly dividend from 27 to 28 cents per share, the maximum allowable under current U.S. Administration guidelines. 1972 was the 90th year of unbroken dividends.

The achievements of the company in 1972 would not have been possible without the dedication and loyalty of Chesebrough-Pond's employees everywhere. Speaking for the officers and directors, I wish to express our appreciation to them and to our stockholders for their continued support. We believe that the company's present position and the economic environment here and abroad give us reason to look ahead to further expansion and record results in 1973.



Ralph E. Ward, President

March, 1973



HEALTH AND BEAUTY PRODUCTS The Health and Beauty Products Division exceeded its 1971 sales increase with a record-breaking 22 per cent rise in 1972 to a new high of \$125,539,000. As such, its sales constituted 36 per cent of the corporate total.

During the year, *Vaseline Intensive Care* Lotion attained the number one market position among all brands of hand and body lotions, scoring a 25 per cent rise in sales. This was accomplished, in part, by an aggressive promotion campaign that emphasized the year-round appeal of the lotion, both as a body moisturizer during the summer tanning season and as a wintertime skin treatment.

Introduced nationally late in 1971, *Vaseline Intensive Care* Bath Beads, in just ten months, achieved the top consumer sales position in the fast-growing bath-additives category.

Similarly, the new *Vaseline Intensive Care* baby line, consisting of a powder, lotion, and oil, introduced in the first quarter of 1972, attained second place in this \$70 million segment of the baby toiletries market by year-end.

Perhaps one of the most satisfying success stories of the year occurred in a well-established product line—*Cutex*. Several product introductions, as well as updating of color ranges and packaging, enabled the division to capitalize on trends in the youth market. *Cutex* Nail Polishes and Polish Removers experienced a 43 per cent sales rise. An increase in sales of a new lemon-scented *Cutex* Nail Polish Remover was part of this trend.

Consumer interest, notably among young people, was stimulated by the *Cutex* brand introduction in late 1972 of "The Thing for Lips" and "The Thing for Eyes," the latter having scored its original success in Great Britain as an eye shadow product appropriately called *Blinkers*. The Things for Eyes and Lips consist of whipped glossing creams in unique color spheres packaged in clear plexiglass outer cubes.

A majority of the division's leading product lines—for today's active woman—entered 1973 as the top sellers in their categories.

Another finger-applied face color line for eyes, cheeks, and lips—"Color Cups" by *Angel Face*—also was introduced successfully in 1972.

Pond's brand introduced Lemon Cold Cream and Creamy Lemon Cleanser during the year. Acceptance of these products led the way to consumer sales gains. During the fourth quarter, *Pond's* brand successfully introduced a Peach-Scented Cold Cream.

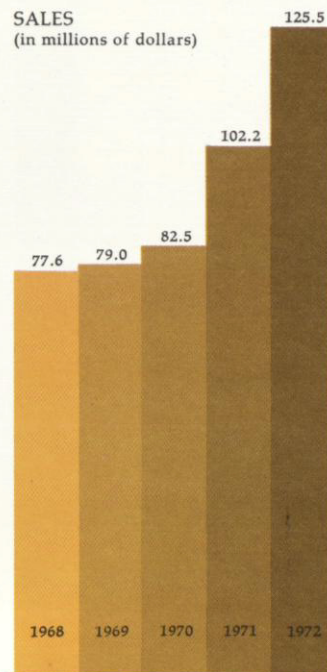
Vaseline Petroleum Jelly, the forerunner of so many of the division's new products, again enjoyed record sales in its 102nd year. In its new oval plastic jar with snap-off cap, it met with enthusiastic market acceptance and contributed to the brand's growth.

As the market leader, *Q-Tips* cotton swabs continued its long-term sales growth, reflecting the addition in the second quarter of an imaginatively repackaged nursery size.

The *Pertussin* group of proprietary cold medicines achieved a marked sales improvement during 1972, largely as a result of the higher incidence of flu in the final quarter compared with the prior year.

For the new year, the division has planned a number of product launches. Most immediate, and most significant because of its novelty, is *Vaseline Intensive Care Wipe'N Dipe* Wipes, a biodegradable, oil-impregnated pre-diapering tissue. Shipped to customers in the first quarter, it is designed to clean and protect infants in one step at every diaper change. While reports of consumer acceptance will not be available until later in the year, preliminary results from this unique product are very encouraging.

SALES
(in millions of dollars)



SPECIALTY FOODS Now in national distribution in virtually all major market areas of the country, sales of *Ragú* products were up 29 per cent over 1971 and reached a level in excess of \$50,000,000. This represents 14 per cent of total company volume.

Also during the year, the *Ragú* brand increased its share of market, and for the first time outsold all other spaghetti sauces combined. The program to enter new food categories was furthered with the introduction into selected markets of *Ragú Joe* sauce for ground beef dishes and variety meat sandwiches.

The three basic spaghetti sauce flavors—plain, meat, and mushroom—performed well during the year, and a 48-ounce-size jar was introduced into several markets. More markets will be added in 1973.

With wider distribution channels now firmly established and expanded production facilities in place, the Specialty Foods Division is in a position to capitalize on its national position and launch additional lines. Its growth will also be aided by the enlarged test kitchen and new product development group in the company's new Research and Development facility at Trumbull, Connecticut.

Early in 1973, another new entry was launched in test markets. Called *Ragú* Meat Loaf Makings, it is a two-jar combination intended to provide "everything but the meat" for an oven-ready loaf. The jars are bonded

together with easy-open tape, one containing sauce and the other containing herbs, spices, and flavored bread crumbs.

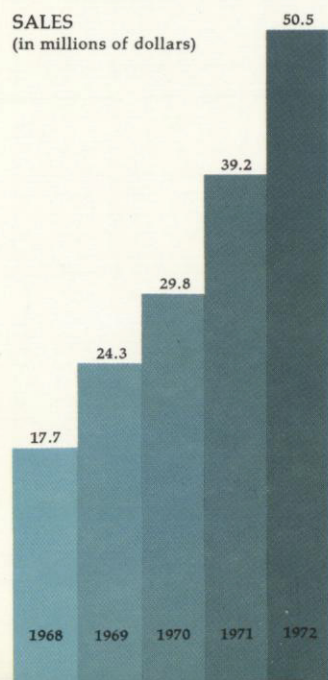
In terms of facilities, a most significant advance was made in the third quarter with the completion of the tomato-paste processing and packaging plant in Merced, California. Since tomato paste is the largest single raw material item purchased by Chesebrough-Pond's, the ability to produce a portion of this requirement internally will provide significant cost efficiencies for the division. A test run of the facility at the end of the 1972 tomato crop season yielded a highly satisfactory product. During the year the Rochester plant and warehouse also were expanded.

It is noteworthy that the Merced plant is equipped to package finished spaghetti sauces as well, thus enabling the division to serve its Western markets more effectively. The West Coast represents one of the newer regions in which *Ragú* advanced significantly, gaining as much as a 50 per cent market share in some areas.

In all these marketing efforts, the *Ragú* brand has been well supported by TV advertising. Promotions have encouraged the use of *Ragú* sauces with summer barbecues and with rice as well as spaghetti. In major markets, *Ragú* product commercials are estimated to reach nearly 90 per cent of TV homes.

During the fourth quarter, Chesebrough-Pond's International Division reached an agreement with Kikkoman Shoyu Co., Ltd., one of Japan's largest food concerns, to manufacture and distribute *Ragú* sauces in that country beginning in 1973. Utilizing local tomatoes and other indigenous ingredients, production in Japan will capitalize on the Japanese taste for pasta-type foods.

SALES
(in millions of dollars)



Ragú, the nation's number one spaghetti sauce, outsold all other brands combined for the first time in 1972.





PRINCE MATCHABELLI The growth of the Prince Matchabelli Division was marked by the continued success of its two leading fragrance lines—*Wind Song* and *Cachet*—as well as the successful 1972 introduction of a seasonal fragrance line—*Sun Shower*. The division's total sales of \$28,300,000 represented an increase of 11 per cent over last year and an 8 per cent segment of the company's combined volume.

Introduced particularly as a spring/summer fragrance, the *Sun Shower* brand is growing into a year-round item, capitalizing on the growing demand for after-bath products. The line includes after-shower splash, shaker-talc, moisturizing body lotion, and *Sun Shower* spray mist cologne.

In terms of comparative performance, the *Cachet* brand again added importantly to its volume in 1972 without detracting from the *Wind Song* brand's continued strong growth pattern.

Since its introduction in the third quarter of 1970, the *Cachet* line has become established as a leading fragrance in all *Prince Matchabelli* outlets, confirmed again by higher repeat sales during the Christmas gift season. It has also met with wide consumer acceptance in Great Britain, where it was introduced through the International Division in 1972.

Product line extensions of the *Cachet* fragrance, comprising cologne, dusting powder, and a complete bath-products line, including Bath Oil, After-Shower Splash,

Body Lotion, and Perfume Powder Mist, lived up to expectations during their first full year on the market.

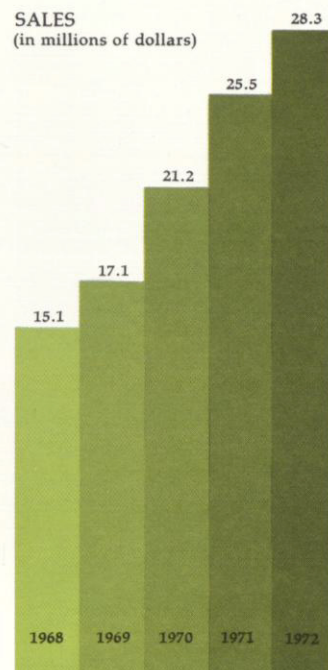
Both *Wind Song* and *Cachet* lines are being extended in the first quarter of 1973 by the introduction of Touch-up Spray Cologne, a purse-sized supplement to the perfume spray already enjoying wide acceptance.

The *Aziza* eye makeup line maintained satisfactory sales levels. Among the 1972 successes were the new Frosted Shadow Trios and Eye Glossers as well as the Lots & Lots O'Lash Mascara and the Soft Tones trio.

One of the indicators of the division's growing strength was the significant progress made in expanding its total franchise—locations and sales volume—with the major chain department stores and chain drug outlets.

Distribution of the *Erno Laszlo* skin-care preparations through specialty shops, initiated in 1970, again showed good results in 1972. Department and specialty stores reported a measurable sales increase, resulting in an increase in profit contribution.

Prince Matchabelli moved strongly into the growing after-bath market with several new products and product line extensions.



HOSPITAL PRODUCTS The most significant trend in the division's sales pattern in 1972 was the increasing ratio of branded products to those marketed under private label to other suppliers and to the Government. Branded hospital product sales rose 11 per cent over 1971 volume and now constitute 67 per cent of the division's total sales. In all, the division contributed 6 per cent of the total corporate sales with a volume of \$21,594,000.

During 1972, there was consolidation of our leading position in the impregnated dressings field through the introduction of the peel-foil packaging that permits terminal sterilization. The new, peelable foil concept in packaging was extended during the year to include such impregnated gauze dressings as *Vaseline Petroleum Gauze*, *Xeroform Gauze*, *Scarlet Red Dressing* and *Zenoderm Porcine Epidermal Dressing*. The latest addition to this group, introduced in the third quarter, was *Aquaflo*, a dressing designed to permit drainage of wound secretion and allow for removal without adhesion.

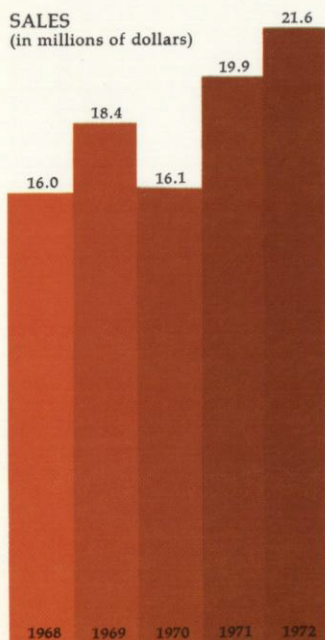
Coupled with these product line extensions in non-adhering dressings, there were expansion and consolidation of manufacturing facilities to provide superior products at lower costs.

New cost efficiencies were achieved during the year in thermometers, a major sales contributor. During the second quarter, the previously announced movement of *Ballo Thermometer* production from Leesburg, Florida, to the Watertown, New York plant was completed.

Vaseline Intensive Care Lotion is proving to be as successful in the professional market as it has been with the general public. And *Q-Tips Single-Tipped Applicators* continue to hold a predominant share of the professional cotton swabs market.

During 1972, the medical research program in support of the Hospital Division was expanded to include the development of new products within selected surgical specialties. Examples of this program included *Xeroflo Medicated Drainage Dressing*; *Unitized Blow Bottles*, a nonmechanical device for respiratory stimulation, and improved products for urinary drainage in the *Clinical Products* line.

Hospital Care, first published three years ago by the division, continues to gain recognition as one of the finest medical publications in the industry. Published three times a year, it is mailed to more than 55,000 personnel in the health care industry.



During the year, the Hospital Products Division raised its branded business to 67% of division sales.



INTERNATIONAL Sales abroad rose 8 per cent from \$115,338,000 to \$124,821,000, contributing 36 per cent of total company volume. Profits increased 14 per cent, in spite of an increase in foreign exchange losses from \$478,000 in 1971 to \$942,000. Our international business accounted for 28 per cent of consolidated earnings.

The European area continued to be the largest single contributor to the International Division with sales of \$45,370,000, an increase of 10 per cent. In terms of worldwide sales, this area accounted for 13 per cent.

The *Cutex* product line was a major contributor to sales in Europe, which mirrored the fashion swing in the United States back to the use of nail color.

Another substantial factor in European sales was the toothpaste market. *Durban* toothpaste has long enjoyed wide popularity in Italy, and this position was strengthened in 1972 with a new fluoridated version. In addition, Donald Duck (*Paperino*) children's toothpaste was successfully introduced in West Germany, and is now being test-marketed in France.

Operations in France were realigned in anticipation of the expiration, at the end of 1972, of a contract to distribute for another American manufacturer. During the year, *Cutex* continued to grow in strength and sales of *Cottrino* Cotton Swabs, packaged in colored translucent cubes, increased.

The *Vaseline* brand continued in strong demand in the United Kingdom and Eire Division, which recorded a 5 per cent volume increase to \$13,217,000. The entire *Vaseline* shampoo line was repackaged, and *Vaseline* Hairspray was introduced. The *Cachet* fragrance line, first sold in the United Kingdom in 1972, met with the same initial success that it had experienced in the United States.

Vaseline Intensive Care Lotion made progress overall in selected international markets in 1972. We believe the greater part of this product's international growth lies ahead.

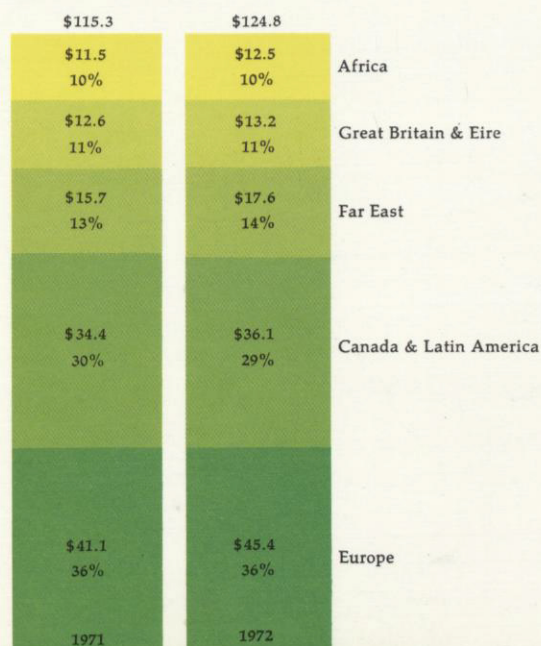
Western Hemisphere sales were up 5 per cent and represented 10 per cent of worldwide sales. Results in Canada, Mexico, and Puerto Rico were particularly strong. Growing sales and marketing opportunities to broaden the product mix in Mexico and Central America prompted plans last year to double Chesebrough-Pond's manufacturing capacity in Mexico.

A 12 per cent sales increase to \$17,590,000 was attained by the Far East Division. Its share of world-wide sales was 5 per cent in 1972. Sales growth centered primarily in Australia, while new facilities in Indonesia as well as additional production and distribution arrangements in Japan for *Ragú* point to future expansion in those countries.

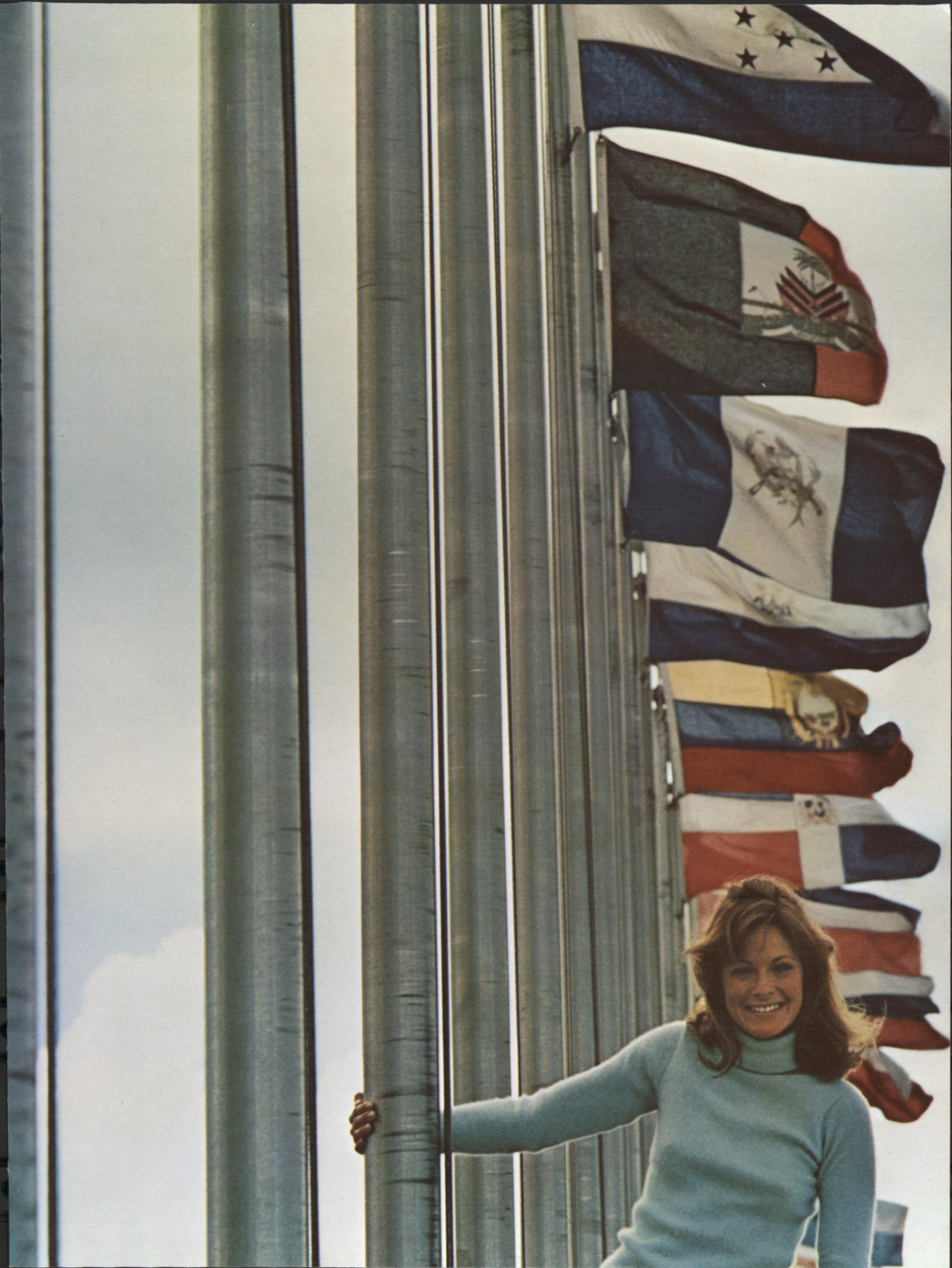
A burgeoning economy in Australia contributed to the gratifying consumer response to a heavy advertising program for the *Cutex* product line. *Pond's* Creams and *Pond's* *Busy Girl* Spray-On Dry Shampoo are also showing healthy sales trends there.

African markets also continued to grow in 1972, contributing 4 per cent to worldwide sales. The division's volume rose 8 per cent to \$12,488,000. This was attained primarily in the Union of South Africa and Zambia.

SALES BY REGION
(in millions of dollars)



International operations progressed in 1972 with profits up 14% on a sales increase of 8%.





FACILITIES In response to Chesebrough-Pond's rapidly growing sales and broadened product mix, expenditures for capital improvements in 1972 totaled approximately \$18,000,000. In general terms, this effort was aimed at expanding capacity to take full advantage of existing and potential markets, reducing production and other operations costs and enhancing new-product development through research.

In October, we started up our new Ragú Foods plant in Merced, California. It has a dual capability—packaging finished products for Western markets and producing a portion of the tomato-paste requirements for the *Ragú* line of sauces. Its packaging function is particularly timely because of the sales growth of *Ragú* products on the West Coast.

In addition, the Ragú Foods, Inc. warehouse in Rochester, New York was expanded by 100,000 square feet. This expansion is one of several additions to warehouse and distribution facilities, including a leased general distribution center in East Brunswick, New Jersey; and warehouse additions in Monticello, Indiana; Clinton, Connecticut; and Markham, Canada.

In Cuernavaca, we completed a 95,000-square-foot production/warehouse facility which has twice our former manufacturing capacity in Mexico. Plants in Lusaka, Zambia; and Djakarta, Indonesia also came on stream in 1972. In the United States, a continuous lotion-processing installation was added to the Jefferson City, Missouri plant to cope with growing demand for *Vaseline Intensive Care Lotion*.

Also at Jefferson City, the plastics packaging components facility was expanded considerably. The savings from the internal manufacture of plastic containers in the United States have been considerable, and we are now beginning to experience additional cost savings from the expansion of this program abroad.

The new Operations Center in Clinton, Connecticut, is another step aimed at increasing internal efficiency. The integration of key staff and planning functions under one roof with the latest data processing equipment is producing new levels of sophistication in the planning and monitoring of a variety of financial, engineering, marketing, purchasing, and other activities.

The company's Research and Development Group occupied its new building in Trumbull, Connecticut, during the year. The 52,000-square-foot installation provides not only a better laboratory environment, but it also opened up space needed for production that it once occupied in the Clinton plant.

Among the highlights of the new Research and Development Center are a sophisticated pilot plant for developing new production processes, an expanded test kitchen for foods, and an aerosol-testing laboratory.

In September, the company's world headquarters was relocated from New York City to a new, leased building in Greenwich, Connecticut. The new building provides needed room for expansion, and is strategically located with respect to the Clinton and Trumbull facilities and the communications and financial hub of New York City.

At the new, worldwide Research and Development Center, product ingredients are thoroughly investigated, including the effect of natural sunlight, as shown here.

CONSOLIDATED STATEMENT OF INCOME

	Year ended December 31,	
	1972	1971**
Net sales	\$350,791,000	\$302,135,000
Royalties	2,175,000	1,903,000
Operating revenues	352,966,000	304,038,000
Cost of products sold	145,617,000	124,070,000
Selling, advertising and administrative expenses	150,111,000	130,172,000
Operating costs and expenses	295,728,000	254,242,000
Income from operations	57,238,000	49,796,000
Other income (expense):		
Interest expense	(4,324,000)	(3,899,000)
Interest income	620,000	955,000
Loss on foreign exchange	(942,000)	(478,000)
Miscellaneous—net	(48,000)	86,000
	<u>(4,694,000)</u>	<u>(3,336,000)</u>
Income before provision for taxes on income	52,544,000	46,460,000
Provision for taxes on income (including charge equivalent to tax benefit relative to the Stock Purchasing Plan—\$3,497,000 in 1972 and \$884,000 in 1971)	25,623,000	23,022,000
Net income	<u>\$ 26,921,000</u>	<u>\$ 23,438,000</u>
Earnings per share*	\$2.20	\$1.94

*Based on average number of shares outstanding (12,219,000 in 1972 and 12,075,000 in 1971). Dilution relating to convertible debentures and other rights was not material.

**Certain items have been reclassified to conform with 1972 presentation. See accompanying notes.

CONSOLIDATED STATEMENTS OF CAPITAL SURPLUS AND RETAINED EARNINGS

	Year ended December 31,	
	1972	1971
Capital Surplus		
Balance at beginning of year	\$ 19,496,000	\$ 13,974,000
Add:		
Excess of conversion price of debentures over par value of stock issued less related expenses	7,778,000	1,582,000
Proceeds in excess of par value of stock issued under the Stock Purchasing Plan	1,196,000	794,000
Tax benefit relative to the Stock Purchasing Plan	3,497,000	884,000
Amount in excess of par value of shares issued for minority interests	—	2,262,000
Adjustment arising from prior pooling of interests	275,000	—
Balance at end of year	<u>\$ 32,242,000</u>	<u>\$ 19,496,000</u>

	Year ended December 31,	
	1972	1971
Retained Earnings		
Balance at beginning of year	\$ 97,711,000	\$ 86,841,000
Net income	26,921,000	23,438,000
	<u>124,632,000</u>	<u>110,279,000</u>
Dividends paid—\$1.08 per share (\$1.04 in 1971)	13,205,000	12,568,000
Balance at end of year	<u>\$111,427,000</u>	<u>\$ 97,711,000</u>

See accompanying notes.

CONSOLIDATED BALANCE SHEET

ASSETS	December 31,	
	1972	1971
Current Assets:		
Cash	\$ 7,695,000	\$ 6,317,000
Short-term investments, at cost which approximates market	1,057,000	5,539,000
Accounts receivable	76,706,000	61,728,000
Inventories:		
Finished goods	29,444,000	24,364,000
Raw materials and work-in-process	41,428,000	36,616,000
Prepaid expenses	5,076,000	5,856,000
Total current assets	161,406,000	140,420,000
 Property, Plant and Equipment:		
At cost	93,690,000	78,399,000
Less accumulated depreciation	30,995,000	28,689,000
Net property, plant and equipment	62,695,000	49,710,000
 Other Assets, at cost	4,390,000	3,834,000
 Deferred Taxes	—	589,000
 Goodwill and Trademarks, at cost	41,054,000	40,325,000
	<u>\$269,545,000</u>	<u>\$234,878,000</u>

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31,	
	1972	1971
Current Liabilities:		
Notes payable and foreign bank overdrafts	\$ 19,611,000	\$ 14,812,000
Accounts payable and accrued liabilities	36,474,000	34,771,000
Federal and foreign income taxes	4,494,000	10,600,000
Long-term obligations due within one year	1,720,000	1,801,000
Total current liabilities	62,299,000	61,984,000
Long-Term Obligations	48,670,000	41,726,000
Deferred Executive Incentive Compensation	2,166,000	1,922,000
Deferred Taxes	188,000	—
Other Non-Current Liabilities	1,893,000	1,562,000
Stockholders' Equity:		
Preferred stock—\$1.00 par value		
Authorized and unissued—1,000,000 shares	—	—
Common stock—\$1.00 par value		
Authorized—15,000,000 shares		
Issued—12,415,897 shares (1971—12,184,468)	12,416,000	12,184,000
Capital surplus	32,242,000	19,496,000
Retained earnings	111,427,000	97,711,000
	156,085,000	129,391,000
Less 56,611 shares of treasury stock (1971—56,080), at cost	1,756,000	1,707,000
Total stockholders' equity	154,329,000	127,684,000
	<u>\$269,545,000</u>	<u>\$234,878,000</u>

STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

	Year ended December 31,	
	1972	1971*
Sources of Working Capital		
Net income	\$ 26,921,000	\$ 23,438,000
Add charges to net income not involving working capital:		
Depreciation	3,877,000	3,592,000
Stock Purchasing Plan tax benefit	3,497,000	884,000
Deferred taxes	777,000	213,000
Other expenses not requiring expenditures of cash	1,415,000	269,000
Provided from operations	36,487,000	28,396,000
Common stock issued for minority interest	—	2,332,000
Conversion of debentures into common stock	8,185,000	1,760,000
Proceeds from stock issued under Stock Purchasing Plan	1,269,000	853,000
Adjustment arising from prior pooling of interests	275,000	—
Increase in long-term obligations	16,990,000	—
Book value of disposed assets	1,269,000	514,000
	<u>64,475,000</u>	<u>33,855,000</u>
Applications of Working Capital		
Additions to property, plant and equipment	18,131,000	12,645,000
Increase in goodwill arising from prior purchase agreement	729,000	5,687,000
Decrease in long-term obligations:		
Convertible debentures	8,185,000	1,760,000
Other	1,861,000	2,037,000
Dividends	13,205,000	12,568,000
Decrease in minority interest	—	1,118,000
Other-net	1,693,000	(1,116,000)
	<u>43,804,000</u>	<u>34,699,000</u>
Increase (decrease) in working capital	<u>\$ 20,671,000</u>	<u>\$ (844,000)</u>
Changes in Components of Working Capital:		
Increase (decrease) in current assets:		
Cash	\$ 1,378,000	\$ (1,040,000)
Short-term investments	(4,482,000)	(1,830,000)
Accounts receivable	14,978,000	7,556,000
Inventories	9,892,000	13,787,000
Prepaid expenses	(780,000)	79,000
	<u>20,986,000</u>	<u>18,552,000</u>
Increase (decrease) in current liabilities:		
Notes payable and foreign bank overdrafts	4,799,000	6,380,000
Accounts payable and accrued liabilities	1,703,000	8,148,000
Federal and foreign income taxes	(6,106,000)	4,928,000
Long-term obligations due within one year	(81,000)	(60,000)
	<u>315,000</u>	<u>19,396,000</u>
Increase (decrease) in working capital	<u>\$ 20,671,000</u>	<u>\$ (844,000)</u>

*Certain items have been reclassified to conform with 1972 presentation.
See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of all domestic and foreign subsidiaries.

Foreign Currency Translation

Property, plant, equipment, goodwill and trademark accounts are translated into dollars at the appropriate rates of exchange at dates of acquisition. All other assets and liabilities are translated at the approximate year-end rates of exchange. Operating accounts, except depreciation, are translated at rates of exchange in effect during the year. Gains and losses resulting from exchange rate fluctuations during a year are reflected in that year's earnings.

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market. Cost represents standard cost which approximates actual cost.

Depreciation

Substantially all depreciation is provided on a straight-line basis for financial accounting purposes. Accelerated depreciation methods are used for income tax purposes. Deferred income taxes are provided on the difference between the depreciation expense for financial accounting and income tax purposes.

Investment Credit

Investment tax credits (which were not material) are applied as a reduction of the provision for taxes on income in the year the related property is put into service.

Goodwill and Trademarks

Cost in excess of net assets of acquired companies and trademarks acquired under agreements entered into prior to November 1, 1970 is not being amortized since there is no present indication of any permanent impairment in the value of these assets. In accordance with Accounting Principles Board Opinion No. 17 the cost of intangible assets acquired under agreements entered into after October 31, 1970 will be amortized on the basis of their estimated lives but not to exceed forty years.

Research and Development Costs

Research and development costs are charged to income during the year in which they are incurred.

Advertising and Promotion Expenses

Advertising expenses are charged to income during the year in which they are incurred. Promotion expenses are charged to income during the period of the promotional campaign.

Retirement Plans

The company has various retirement plans covering the majority of its employees worldwide. The company's accounting and funding policies are the same. Past service costs have been fully funded for the principal plans.

Foreign Operations

The consolidated balance sheet at December 31, 1972 and 1971 includes net assets of \$63,099,000 and \$58,766,000, respectively for subsidiaries and branches in foreign countries.

Results of foreign operations included in the consolidated statement of income were as follows:

	1972	1971
Net sales	\$124,821,000	\$115,338,000
Net income	\$ 7,641,000	\$ 6,702,000

A substantial portion of foreign earnings is remitted in the year earned; the balance is intended to remain permanently invested to finance future growth and expansion and accordingly no income taxes have been provided on these undistributed earnings which aggregated \$37,000,000 at December 31, 1972.

Stock Purchasing and Option Plans

At January 1, 1972, 440,310 shares of common stock were reserved for issuance to certain employees under the Stock Purchasing Plan against which purchase elections for 161,395 shares were outstanding at prices ranging from \$13.50 to \$21.20 per share.

The Plan provides that no more than 150,000 shares can be subscribed for in any one year and no more than 4% thereof can be allocated to any one individual in any year. Employees may pay for shares over a period of five years. Shares may not be disposed of for a period of five years from the date of the purchase agreement.

During the year, employees were granted elections to purchase 106,510 shares at \$23.32 per share (representing fourteen times the average earnings per share during the preceding five years), agreements for 1,830 shares were cancelled and 73,110 shares were fully paid for and issued.

At December 31, 1972, 367,200 shares were reserved, of which purchase elections for 192,965 shares were outstanding.

Under the Internal Revenue Code and pertinent regulations of the United States Treasury Department, the company is entitled to tax deductions relating to the difference between the employees' purchase price and the market value of the shares at certain relevant dates. An amount equivalent to the tax benefit provided by these regulations has been charged to income and has been credited to capital surplus as additional consideration received by the company for the stock sold under the Plan.

On May 4, 1972, the shareholders approved a Qualified Stock Option Plan which authorizes issuance of options to purchase not more than 500,000 shares of stock by certain employees at an option price of not less than 100% of the fair market value of the stock at date of grant. Options are not exercisable until the optionee completes one year of service from the date of grant and expire five years from date of grant. The maximum number of shares which may be granted to one person is 5% of total shares authorized under the Plan. At December 31, 1972 no options had been granted.

Property, Plant and Equipment

A summary of property, plant and equipment follows:

	1972	1971
Land	\$ 4,908,000	\$ 5,014,000
Buildings	35,283,000	29,155,000
Machinery and equipment	45,956,000	37,461,000
Leasehold improvements	2,079,000	1,569,000
Construction in progress	5,464,000	5,200,000
	<u>93,690,000</u>	<u>78,399,000</u>
Less accumulated depreciation	30,995,000	28,689,000
Net property, plant and equipment	<u>\$62,695,000</u>	<u>\$49,710,000</u>
Expenditures for property, plant and equipment	<u>\$18,131,000</u>	<u>\$12,645,000</u>
Depreciation	<u>\$ 3,877,000</u>	<u>\$ 3,592,000</u>

Long-Term Obligations

Long-term obligations at December 31, excluding amounts due within one year were:

	1972	1971
4 ³ / ₄ % convertible debentures, due December 31, 1983	\$ 4,616,000	\$ 7,744,000
6 ¹ / ₄ % convertible debentures, due December 15, 1984	19,943,000	25,000,000
5% Notes due in equal annual installments through 1976	3,000,000	4,000,000
Domestic term loans	10,000,000	—
Foreign term loans	5,863,000	—
Long-term lease obligations	3,875,000	4,135,000
Other long-term debt	1,373,000	847,000
Total	<u>\$48,670,000</u>	<u>\$41,726,000</u>

In 1969, Chesebrough-Pond's International Capital Corporation, a wholly-owned subsidiary, sold to purchasers outside the United States \$12,000,000 principal amount of 4³/₄% debentures, and \$25,000,000 principal amount of 6¹/₄% debentures. These debentures are guaranteed on a subordinated basis as to principal and interest by Chesebrough-Pond's Inc. The 4³/₄% debentures are convertible into common stock of Chesebrough-Pond's Inc. at \$49.00 per share and are subject to redemption through annual sinking fund payments of \$850,000 beginning December 31, 1976. During 1972 and 1971, \$3,128,000 and \$1,760,000 of the 4³/₄% debentures were converted into 63,817 and 35,901 shares, respectively. The 6¹/₄% debentures are convertible into common stock of Chesebrough-Pond's Inc. at \$53.50 per share and are subject to redemption through annual sinking fund payments of \$1,800,000 beginning December 15, 1977. During 1972, \$5,057,000 of the 6¹/₄% debentures were converted into 94,502 shares. None was converted in 1971. At December 31, 1972, an aggregate of 467,010 shares of common stock was reserved for conversion of the debentures.

The domestic term loans provide for interest at 115% of the prime rate through December 31, 1975 and thereafter at ¹/₄ of 1% above 115% of the prime rate with a maximum average interest rate of 7¹/₂%. The notes are payable in three installments beginning December 31, 1977 and may be repaid earlier at the company's discretion without penalty.

The foreign term loans consist of two \$2,000,000 Eurodollar term loans due in February and March, 1974. One loan is at a fixed interest rate of 7³/₁₆% while the other is at a floating prime Eurodollar rate. The interest rate of this loan was 6⁷/₁₆% at December 31,

1972. In addition, a \$1,863,000 German Deutsch Mark term loan at 3½% over the German Central Bank discount rate due November, 1976 is outstanding. At December 31, 1972, interest on this loan was at an 8% rate.

A long-term lease for a plant has been treated as a purchase for both accounting and tax purposes. An annual rental of approximately \$400,000 is payable through 1985 to cover principal and interest payments on the related industrial development bonds. The company has an option to purchase the facilities at any time by funding an amount sufficient to retire the then outstanding debt or for a nominal amount after the retirement of the debt.

The various loan agreements contain working capital and dividend restrictions. The unrestricted retained earnings at December 31, 1972 was \$79,107,000.

Deferred Executive Incentive Compensation

Under the provisions of the Executive Incentive Profit Sharing Plan, \$1,060,542 was charged to income in 1972 and \$902,123 in 1971. Of these amounts, payments of \$328,117 and \$281,245 have been deferred in 1972 and 1971 and converted into 3,566 units and 4,231 units, respectively, measured by the current market value of a share of the company's common stock. Participants will receive, upon retirement, death

or termination of employment, shares of the company's treasury stock equal to the number of units credited to their accounts unless the company elects to distribute cash equal to the market value of such shares. Distribution to participants in 1972 consisted of 1,927 shares of treasury stock. At December 31, 1972, there were 53,418 units credited to participants under the Plan. The estimated future federal tax reduction has been included in deferred taxes in the balance sheet.

Retirement Plans

The company has charged to income \$1,585,000 in 1972 and \$1,616,000 in 1971 for all retirement plans.

Income Taxes

The provision for taxes on income consists of the following segments:

	1972	1971
United States	\$17,126,000	\$15,992,000
Foreign	6,729,000	5,211,000
State and local	1,768,000	1,819,000
Total	<u>\$25,623,000</u>	<u>\$23,022,000</u>

Deferred income taxes included in the above amounted to \$777,000 in 1972 and \$213,000 in 1971.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

To The Shareholders, Chesebrough-Pond's Inc.

We have examined the accompanying consolidated balance sheet of Chesebrough-Pond's Inc. and subsidiaries at December 31, 1972 and 1971 and the related consolidated statements of income, capital surplus, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Chesebrough-Pond's Inc. and subsidiaries at December 31, 1972 and 1971 and the consolidated results of operations and the changes in consolidated financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

New York, N.Y.
February 21, 1973

TEN-YEAR SUMMARY 1963-1972

(in thousands of dollars)

	1972	1971	1970
Operations:			
Net sales	\$ 350,791	\$ 302,135	\$ 260,986
Royalties	2,175	1,903	1,731
Operating costs and expenses*	295,728	254,242	219,568
Income before taxes*	52,544	46,460	39,300
Income taxes*	25,623	23,022	18,422
Net income	26,921	23,438	20,878
Earnings per share	\$2.20	\$1.94	\$1.76
Dividends per share	1.08	1.04	1.01
Pre-tax income as a per cent of net sales*	15.0%	15.4%	15.1%
Net income as a per cent of net sales	7.7%	7.8%	8.0%
Year-End Financial Position:			
Current assets	\$ 161,406	\$ 140,420	\$ 121,868
Property, plant and equipment (net)	62,695	49,710	41,171
Total assets	269,545	234,878	203,515
Current liabilities	62,299	61,984	42,588
Working capital	99,107	78,436	79,280
Total liabilities	115,216	107,194	92,444
Stockholders' equity	154,329	127,684	111,071
Stockholders' equity per share	\$12.49	\$10.53	\$9.28
Return on stockholders' equity	21.1%	21.1%	22.2%
Shares outstanding (excluding treasury shares)	12,359,286	12,128,388	11,961,607
Stock Price Range	89 ¹ / ₂ -56 ³ / ₈	60 ¹ / ₂ -44 ¹ / ₂	52 ⁷ / ₈ -32 ³ / ₄

*For years prior to 1972, state and local taxes based on income were reclassified from operating costs and expenses to income taxes.

1965-1968 restated for poolings of interests.

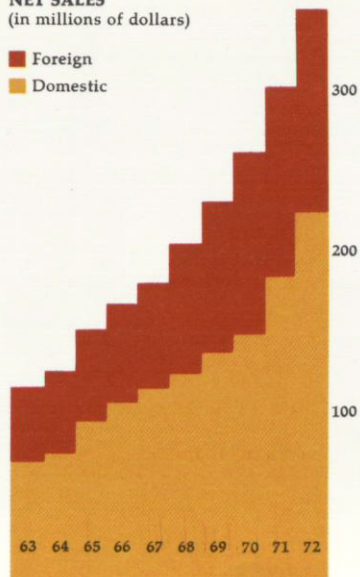
Earnings per share is computed using the average number of shares outstanding.

Shares outstanding, all per share figures and the stock price range have been adjusted for the stock split in 1964.

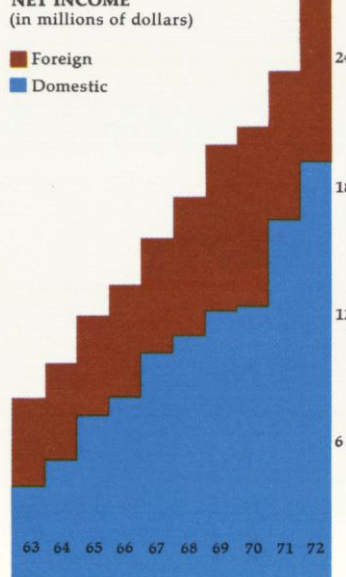
1969	1968	1967	1966	1965	1964	1963
\$ 230,908	\$ 205,492	\$ 180,879	\$ 168,025	\$ 150,147	\$ 125,985	\$ 116,885
1,966	2,072	2,205	2,139	2,098	1,911	1,702
192,803	171,679	153,511	144,282	129,034	109,178	100,493
38,984	35,005	28,413	24,515	22,935	18,809	17,676
18,969	17,361	12,803	11,112	10,889	8,979	9,546
20,015	17,644	15,610	13,403	12,046	9,830	8,130
\$1.73	\$1.53	\$1.37	\$1.18	\$1.06	\$.97	\$.81
.94	.86	.78	.70	.62	.50	.42
16.9%	17.0%	15.7%	14.6%	15.3%	14.9%	15.1%
8.7%	8.6%	8.6%	8.0%	8.0%	7.8%	7.0%
\$ 111,943	\$ 97,254	\$ 80,236	\$ 71,485	\$ 68,750	\$ 57,767	\$ 54,104
38,479	28,532	26,687	25,825	23,708	16,280	15,351
185,933	141,898	117,002	107,466	101,628	82,586	78,154
40,731	38,055	28,562	27,162	24,921	20,080	20,904
71,212	59,199	51,674	44,323	43,829	37,687	33,200
91,891	58,895	42,943	42,588	41,417	30,566	31,341
94,042	83,003	74,059	64,878	60,211	52,020	46,813
\$8.09	\$7.20	\$6.46	\$5.72	\$5.30	\$5.13	\$4.64
24.1%	23.8%	24.1%	22.3%	23.2%	21.0%	19.1%
11,621,564	11,524,373	11,462,657	11,339,503	11,362,983	10,143,245	10,084,638
54 ¹ / ₂ -37	48 ¹ / ₂ -34 ¹ / ₈	44 ³ / ₄ -27 ⁵ / ₈	32-20	29 ⁷ / ₈ -21 ¹ / ₂	22 ⁵ / ₈ -17 ¹ / ₈	20 ⁷ / ₈ -17 ¹ / ₄

NET SALES
(in millions of dollars)

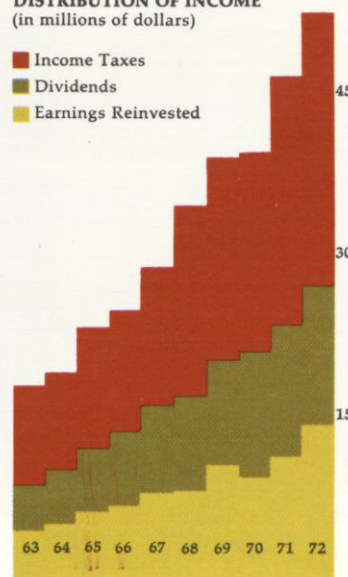
Foreign
Domestic

NET INCOME
(in millions of dollars)

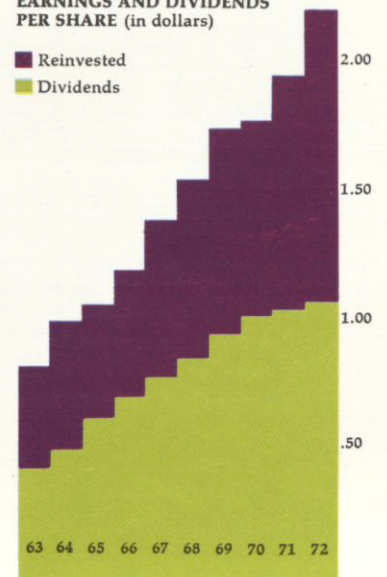
Foreign
Domestic

DISTRIBUTION OF INCOME
(in millions of dollars)

Income Taxes
Dividends
Earnings Reinvested

EARNINGS AND DIVIDENDS
PER SHARE (in dollars)

Reinvested
Dividends



Board of Directors

J. Edgar Bennett*
Group Vice President,
Chesebrough-Pond's Inc.

John F. Betts
Chairman of the Board,
Interpace Corporation

Anthony L. Conrad
President, RCA Corporation

Alfred S. Foote
Retired Senior Vice President,
Morgan Guaranty Trust Company
of New York

William L. Jackson*
Group Vice President,
Chesebrough-Pond's Inc.

Alexander N. McFarlane
Honorary Chairman of the Board,
CPC International Inc.

Frank J. McGroarty
Retired Vice President and Secretary,
Chesebrough-Pond's Inc.

Alvin W. Pearson
Managing Director, Lehman Brothers
Incorporated (Investment Bankers)

Ralph E. Ward*
President and
Chief Executive Officer,
Chesebrough-Pond's Inc.

William C. Watson*
Executive Vice President,
Chesebrough-Pond's Inc.

Donald G. Wiesen*
Group Vice President,
Chesebrough-Pond's Inc.

J. Tylee Wilson*†
Group Vice President,
Chesebrough-Pond's Inc.

*Member of Executive Committee
†Elected January 17, 1973

Executive Offices

33 Benedict Place
Greenwich, Conn. 06830
Telephone (203) 661-2000

Certified Public Accountants

Arthur Young & Company
277 Park Avenue
New York, N.Y. 10017

Transfer Agent

The Chase Manhattan Bank, N.A.
1 New York Plaza
New York, N.Y. 10015

Registrar

Bankers Trust Company
485 Lexington Avenue
New York, N.Y. 10015

Stock Exchange Listings

New York Stock Exchange (CBM)
London Stock Exchange
Paris Bourse

Officers

Ralph E. Ward
President and
Chief Executive Officer

William C. Watson
Executive Vice President

J. Edgar Bennett
Group Vice President

William L. Jackson
Group Vice President

Donald G. Wiesen
Group Vice President

J. Tylee Wilson
Group Vice President

Robert W. Bennett
Vice President

George W. Bieler
Vice President

Francis X. Golden
Vice President

Jack J. Goodman
Vice President

Thomas J. Leverte
Vice President

Perry D. Lindholm
Vice President

Robert H. Mann
Vice President,
Secretary and
General Counsel

George A. McMoran, Jr.
Vice President

Frank L. Stamberg
Vice President

J. Donald Powers†
Treasurer

†Elected effective Feb. 1, 1973

U.S. Plant Locations

Clinton, Connecticut
Hillside, New Jersey
Jefferson City, Missouri
Merced, California
Norwood, New Jersey
Oriskany Falls, New York
Pleasantville, New Jersey
Perth Amboy, New Jersey
Rochester, New York
Sherburne, New York
Watertown, New York

International Branches and Subsidiaries

Argentina, Buenos Aires*
Australia, Melbourne*
Bahamas, Nassau
Bermuda, Hamilton*
Brazil, São Paulo*
Canada, Markham*
Colombia, Bogotá*
England, London*
France, Paris/Pont de L'Arche*
Ghana, Accra
Guatemala, Guatemala City
Hong Kong
India, Madras
Indonesia, Djakarta*
Ireland, Dublin*
Italy, Milan*
Jamaica, Kingston
Japan, Tokyo*
Malawi, Blantyre
Malaysia, Kuala Lumpur
Mexico, Cuernavaca*
Monaco, Monte Carlo*
New Zealand, Auckland
Nigeria, Apapa
Panama, Panama City
Peru, Lima*
Philippines, Manila
Puerto Rico, San Juan
Rhodesia, Salisbury*
Singapore
South Africa, Germiston*
Spain, Madrid*
Switzerland, Geneva
Thailand, Bangkok
Trinidad, Port of Spain
Uruguay, Montevideo*
Venezuela, Caracas*
West Germany, Munich/
Oberndorf-Am-Neckar*
Zambia, Lusaka*

*Overseas Plants

In addition to maintaining
plants in 23 countries,
Chesebrough-Pond's uses
the facilities of manu-
facturing and selling
representatives in 50 other
important markets.

Chesebrough-Pond's
products are sold in
140 markets throughout
the world.

The Annual Meeting
of Shareholders will be held
at 10:30 a.m. on Wednesday,
May 16, 1973, in the
Bowman Room of the Biltmore
Hotel, New York, N.Y.



Chesebrough-Pond's Inc.
33 Benedict Place, Greenwich, Conn. 06830